

VZCZCXRO4543  
PP RUEHCD RUEHGA RUEHGD RUEHHA RUEHHC RUEHMC RUEHQU RUEHTM RUEHVC  
DE RUEHBU #1890/01 2641445  
ZNR UUUUU ZZH  
P 211445Z SEP 07  
FM AMEMBASSY BUENOS AIRES  
TO RUEHC/SECSTATE WASHDC PRIORITY 9301  
INFO RUCNMRC/WESTERN HEMISPHERIC AFFAIRS DIPL POSTS PRIORITY  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY  
RUCPDOG/USDOC WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 04 BUENOS AIRES 001890

SIPDIS

SENSITIVE  
SIPDIS

TREASURY FOR CLAY LOWERY, NANCY LEE, AJEWEL, WBLOCK, LTRAN  
NSC FOR JOSE CARDENAS, ROD HUNTER  
PASS FED BOARD OF GOVERNORS FOR RANDALL KROSZNER, PATRICE  
ROBITAILLE  
PASS EXIM BANK FOR MICHELE WILKINS  
PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI  
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [EINV](#) [AR](#)

SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, SEPTEMBER  
5-14, 2007

11. (U) Provided below is Embassy Buenos Aires' Economic and  
Financial Review covering the period September 5-14, 2007.  
The unclassified email version of this report includes tables  
and charts tracking Argentine economic developments. Contact  
Econoff Chris Landberg at landbergca@state.gov to be included  
on the email distribution list. This document is sensitive  
but unclassified. It should not be disseminated outside of  
USG channels or in any public forum without the written  
concurrence of the originator. It should not be posted on  
the internet.

-----  
Highlights  
-----

-- Presidential candidate Cristina Kirchner's  
business-friendly speech promises continuation of current  
economic policies  
-- August CPI increases 0.6% m-o-m, roughly half of private  
sector estimates  
-- Argentine Court orders recalculation of CPI data  
-- Argentina's trade balance down: overall, with Brazil, and  
in budget projections  
-- Election-year politics stop Buenos Aires City  
under-the-table effort to improve its finances  
-- September 12 airline strike paralyzes domestic travel

-----  
Economic Outlook  
-----

Presidential candidate Cristina Kirchner's business-friendly  
speech promises continuation of current economic policies

12. (SBU) Leading Presidential candidate, Senator, and First  
Lady Cristina Fernandez de Kirchner spoke on September 4 at a  
high-profile lunch organized by the prominent Argentine  
business association IDEA (Argentine Business Development  
Institute), where she highlighted her interest in ensuring a  
business and investor-friendly environment in Argentina.  
Many of the Argentine and expatriate business elite attending  
the lunch subsequently praised her welcoming approach to the  
private sector, contrasting her attempt to build  
relationships with the confrontational style of her husband,

President Nestor Kirchner.

13. (SBU) Nevertheless, many participants privately perceived her comments as evidence of her intention to continue current GoA policies. As a subsequent Deutsche bank report noted, Cristina presented the key economic tenets of her government as a continuation of her husband's policies; she praised Nestor Kirchner's accomplishments and downplayed what many see as growing risks and challenges to economic growth in 2008 (high inflation, excessive GoA expenditures, union's demands for excessive salary increases). Her speech, therefore, implied that post-election policy changes will be gradual, and did not clarify how inclined she would be to address what most economists consider an overheating economy. Main highlights of Cristina's speech:

-- If elected, her government would target a primary fiscal surplus of 3.15% of GDP in 2008. (Comment: the 2007 primary fiscal surplus is estimated at 3.1 to 3.5% of GDP, but falls to only approximately 2% when excluding one-off assets transfer resulting from the 2007 pension reform. In order to achieve a 3.15% primary surplus, Cristina's government would have to decrease subsidies, particularly to the energy sector, which -- in order to preclude an energy crisis -- would also probably require the GoA to allow increases to energy prices that have been broadly frozen since 2002.)

-- She called for the creation of a "social pact" in 2008, among government, the private sector, and labor unions. (Comment: This has been interpreted as a means to encourage moderation in union demands for formal sector wage increases that exceed actual inflation. Other countries have used such business/labor/government pacts, with questionable effectiveness, as a means to control both wage growth and price increases.)

BUENOS AIR 00001890 002 OF 004

-- She argued that Argentina's "competitive exchange rate is not forever" and that competitiveness should not solely rely on the exchange rate, but should be complemented by technological and productive investment.

-- She supported the current administration's argument that it has not manipulated official statistics, and stood by the Argentine statistical agency INDEC's published CPI data (see items below). She also denied that recent global market volatility has had or would have an outsized impact on Argentina. (Comment: private sector estimates for inflation are now in the range of 15-20%, compared to INDEC's 8-9% for the CPI.)

-- She promised an agreement with the Paris Club following the October 28 elections.

-- She called recent austral winter energy shortages a negative by-product of Argentina's rapid economic growth since 2003. (Comment: At the conference, a draft study prepared by the Technical Institute of Buenos Aires said that Argentina will need \$3-5 billion per year in energy sector investment each year for the next 4-5 years to meet burgeoning Argentine energy demand. End Comment)

-----  
Inflation  
-----

August CPI increases 0.6% m-o-m, roughly half of private sector estimates

----- --  
14. (SBU) On September 6, the GoA statistical agency INDEC announced that the August CPI increased 0.6% m-o-m, in line with expectations that already anticipated significant underreporting. Local private analysts estimate that the published increase represents about half the "true" inflation rate. As reported in the September 4 Report, provincial CPIs

indicate that "true" inflation for 2007 will be in the 15-20% range. According to INDEC, accumulated inflation for the first eight months of the year reached 5%, compared to the 8-10% rate that most private consultants estimate. The sub-indexes with the largest m-o-m increases were: Education (1.6%), health services (1.3%), food and beverages (1.2%) and housing (1%), which were partially offset by a decrease of 1.2% in entertainment. Credit Suisse notes that the August CPI does not point to any obvious manipulation of the data. However, anecdotal evidence suggests that food and beverage price increases have been much higher. (Note: food/beverage prices are key data used in the measurement of indigence and poverty levels. End Note)

#### Argentine Court orders recalculation of CPI data

15. (SBU) On September 12, Federal Judge Rodolfo Canicoba Corral ordered the Federal Police and external experts to verify whether INDEC authorities have manipulated CPI statistics, based on confiscated INDEC forms containing January price surveys. Judge Canicoba Corral said he would use the results to decide whether to summon the Ministry of Economy's Secretary of Internal Commerce, Guillermo Moreno, known as the GoA's price control Czar, and other INDEC authorities as defendants in a case on official statistics manipulation. Simultaneously, a group of INDEC employees reported to local press that they would submit a report to the GoA outlining INDEC management's actions taken to force INDEC's professional staff to manipulate statistics. These include firing the head of the construction prices section in early September, following her refusal to exclude some price increases in the monthly cost of construction index.

16. (SBU) The experts that Judge Canicoba Corral designated will attempt to use INDEC forms to reproduce INDEC's public methodologies and compare the outcomes with INDEC's official CPI reports. However, there are reports that INDEC personnel destroyed many forms after the Courts issued an order to confiscate the documents. Local analysts have pointed out that this court-ordered recalculation could encourage

BUENOS AIR 00001890 003 OF 004

judicial cases against the GoA by holders of CPI-linked Argentine debt, and could also complicate the GoA's wage negotiations with unions. Federal Attorney Carlos Stornelli initiated this judicial case after the GoA sacked INDEC director Graciela Bevacqua last February due to her opposition to GoA intervention in INDEC.

-----  
Trade  
-----

Argentina's trade balance down: overall, with Brazil, and in budget projections

17. (SBU) Argentina's July 2007 trade surplus decreased almost 50% y-o-y to \$479 million, totaling \$10.7 billion in the 12 months ending July 31, 2007. July exports grew 22% y-o-y, while imports grew 45%, totaling \$50 billion and \$39.2 billion respectively during the preceding 12 months. July imports reached a single-month record of \$4.1 billion.

18. (SBU) The falling July surplus was driven primarily by reduced energy exports and increased energy imports, against increased agricultural and automobile exports. Continued cutbacks in energy exports (intermittent since 3Q06) have led to a 17% y-o-y decrease from Jan-Jul 2007, and 32% y-o-y in July alone. Increased energy imports have been more dramatic: the y-o-y increases have been 44% for the first seven months and 159% in July (totals of \$1.4 billion and \$467 million respectively). More than 90% of the annual increase in exports was in four sectors: cereals, oilseeds, edible oils and automobiles, and much of that is due to record harvests and rising world commodity prices.

¶9. (SBU) Meanwhile, official statistics indicate that Argentina's trade deficit with neighbor and biggest trading partner Brazil reached a monthly record of \$512 million in July -- 115% more than the July 2006 deficit -- for a cumulative 2007 deficit of \$2.43 billion, up 12% y-o-y. Energy imports from Brazil through July 2007 grew 368% y-o-y (to \$173 million), but the largest dollar increases in July imports from Brazil were in capital goods and automobiles, which increased \$112 and \$99 million (56% and 96%) respectively compared to July 2006.

¶10. (SBU) According to press reports about the GoA's 2008 budget proposal (presented to Congress September 19 by Economy Minister Peirano), the trade surplus is projected to total \$11 billion for 2007 and \$10.5 billion in 2008. These are down from the \$12.3 billion surplus in 2006, and well below post-crisis surpluses of \$16.4 and \$15.5 billion in 2002 and 2003, respectively.

¶11. (SBU) These numbers appear in the context of Argentina seeking to implement new trade measures to reduce imports of manufactured goods from China and the GoA's current participation in a Doha round negotiations in Geneva on Agricultural, NAMA and Service sector modality papers.

-----  
Finance  
-----

Election-year politics brake Buenos Aires City effort to improve its finances  
-----

¶12. (SBU) Jorge Telerman, outgoing Mayor of the City of Buenos Aires, announced August 24 increases in fees for ABL services (ABL: Alumbrado, Barrido y Limpieza -- charges to property owners for street lights, cleaning, and trash collection). He justified the decision with the argument that ABL fees are too low given the dramatic increases in property prices over the last five years. He said this was particularly true for upper-class neighborhoods, entailing an unfair burden on poorer areas, which supported his administration's decision to disproportionately apply the increases on rich households. What Telerman did not publicly highlight, however, is that the City is desperately searching for ways to increase revenues to finance its budget deficit

BUENOS AIR 00001890 004 OF 004

of approximately ARP 1 billion (\$315 million) before the newly elected Mayor Mauricio Macri takes office in December.

¶13. (SBU) Telerman's administration intended for the increased "fees" to help cover the financing gap without calling it a tax increase (which would have required approval of the Buenos Aires legislature). While the measure technically entered into force August 27, it created a storm of controversy that forced Telerman to shelve the initiative temporarily, while a Congressional committee reviews the issue. Opponents of the measure argued against it on technical grounds (charging that the formula for applying the increases was flawed). However, the opposition was led by the Frente para la Victoria, President Kirchner's coalition, and local press reported that they were motivated by presidential election-year political considerations. As supporting evidence of this allegation, the Congressional committee participants have indicated that the City will not implement the measure during 2007.

-----  
Labor  
-----

September 12 airline strike paralyzes domestic travel  
-----

¶14. (SBU) On Monday, September 12, air cabin crew members from Aerolineas Argentinas and its subsidiary Austral staged a nationwide 24-hour strike that forced the cancellation

of virtually all domestic flights and stranded 13,000 irate passengers at Buenos Aires's Jorge Newbery Airport and most provincial airports. Both airlines are owned by the Spanish tourism group Marsans. The next day, the two carriers' unions, working with GoA Ministry of Labor, reached agreement with management on a 23% average monthly wage increase, retroactive to April. The accord includes a "social peace" clause in which the union agreed not to stage any job actions until April 1, 2008. Flights were rescheduled for Tuesday, and did not affect international arrivals or departures.

(Comment: some local analysts expect similar strikes in other sectors, as unions stretch their muscles in the run-up to the October 28 presidential election. End Comment)

WAYNE